

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Gellray, P.C.</i> <i>Alan M. Stone</i>			Date	

**Ionia Area Sewage Disposal System
Ionia, Michigan**

FINANCIAL STATEMENTS

June 30, 2004

Ionia Area Sewage Disposal System

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ABRAHAM & GAFFNEY, P.C.
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INDEPENDENT AUDITOR'S REPORT

Ionia Area Sewage Disposal System
Ionia, Michigan

We have audited the accompanying basic financial statements of the Ionia Area Sewage Disposal System as of and for the years ended June 30, 2004 and 2003, as listed in the Table of Contents. These basic financial statements are the responsibility of the Ionia Area Sewage Disposal System's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Ionia Area Sewage Disposal System as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ionia Area Sewage Disposal System's basic financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 24, 2004

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IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

The intent of the management discussion and analysis is to provide highlights of the Agency's financial activities for the Fiscal Year ended June 30, 2004. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- ❖ **NET ASSETS:** The assets of the Sewage Disposal System (SDS) did exceed its liabilities by \$7.8 million. Of this amount, \$1,693,848 (unrestricted net assets) may be used to meet the SDS's ongoing obligations to citizens and creditors. The total net assets did increase by \$60,777. Total assets were more than one year ago due to bond proceeds that haven't been spent yet on upcoming capital projects. However, unfunded depreciation reduced the Capital Assets, which resulted in an increase of total assets by \$463,856. In addition, overall liabilities increased because of the bond issue on April 28, 2004. Principal was paid on existing debt so that the increase in liabilities was a net of \$403,079.
- ❖ **Operating Revenues and Expenses:** Revenues were slightly higher for the fiscal year ending June 30, 2004. Expenses for Administrative costs include bond issuance costs from the April 28th bond. Fringes and Salaries were more than last year as a result of the retro active pay from signing the union contract in April of 2004.
- ❖ **Non-Operating Revenues and Expenses:** Investment income was \$2,379 more than a year ago from the long term investment earning. The SDS paid for half of the debt payment on the special assessment bond in the Skyview subdivision that had reverted back to the City. When the improved lots were taken back by the City, the subsequent sale to a developer was made with the knowledge that the City and SDS would be responsible for the future bond payments on the improvements which included a lift station to handle future projected flows. In addition, the SDS received land from the transfer on which the lift station and other future improvements can be located. The restriction of these properties and control of the improvements allows for potential future growth without the need to acquire such assets. This bond will be paid off October 2010. The Skyview debt payment was \$41,235 less in 2003-04 than the previous year.
- ❖ **Deferred Revenue:** In November 2001, Easton Township decided to have the City bill their sewer customers for actual usage instead of the township billing them a flat fee. At this point, the township also chose to pay off their portion of existing debt based on their previous percentage of ownership. The township paid \$203,270, which was determined to be their percentage of total debt on October 22, 2002. This amount was set up as restricted cash and deferred revenue. It will be shown as earned revenue as each semi-annual payment is made on the existing debt. The 2003-04 portion of township debt that was applied was \$18,825. Interest earned on this restricted cash is also kept separate and will be recognized as the payments are recorded. The 2003-04 portion of township interest was \$1,046. The township customers therefore are not billed for debt service on their quarterly bills.

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of the Sewage Disposal System, which include notes that explain in more detail some of the information in the financial statements.

As a municipal wastewater treatment plant, Ionia Area Sewage Disposal System engages in primarily enterprise operations in various separate and distinct activities. These activities include but are not limited to: 1) acquisition and construction of collection and plant facilities and treatment of domestic and industrial wastewater; 2) maintain sanitary sewers and storm sewers; 3) lift station operation and maintenance. The SDS was created by the City of Ionia, and Ionia, Berlin and Easton Townships to provide collection, treatment and disposal of sewage for the benefit of their constituents. The service area includes all of the City of Ionia and the more intensely developed areas located in the townships adjacent to the city limits.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Sewage Disposal System (SDS) using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the SDS's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to SDS creditors (liabilities). It also provides the basis for evaluating the capital structure of the SDS and assessing the liquidity and financial flexibility of the SDS.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the SDS's operations over the past year and can be used to determine whether the SDS has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE SDS

The Statement of Net Assets and the Statement of Activities provide information to determine how the SDS did financially during 2003-2004. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating overtime. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation also need to be considered in determining the SDS financial health.

NET ASSETS

The SDS's Condensed Statement of Net Assets and Statement of Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables. A comparative analysis of data will be presented to the fiscal year of 2002-2003.

TABLE 1
CONDENSED STATEMENT OF NET ASSETS

	<u>6/30/2004</u>	<u>6/30/2003</u>
Current Assets	\$ 1,225,771	\$ 1,251,723
Noncurrent Assets	795,840	185,466
Capital Assets	<u>10,346,693</u>	<u>10,467,259</u>
Total Assets	12,368,304	11,904,448
Current Liabilities	747,744	693,296
Noncurrent Liabilities	<u>3,732,519</u>	<u>3,383,888</u>
Total Liabilities	<u>4,480,263</u>	<u>4,077,184</u>
Invested in Capital Assets		
Net of Related debt	6,194,193	6,689,509
Unrestricted	<u>1,693,848</u>	<u>1,137,755</u>
Total Net Assets	<u>\$ 7,888,041</u>	<u>\$ 7,827,264</u>

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

TABLE 2
CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS

	2003 - 2004	2002 - 2003
Operating Revenues	\$ 934,684	\$ 914,262
Non-operating Revenues	<u>573,661</u>	<u>571,684</u>
Total Revenues	1,508,345	1,485,946
Depreciation Expense	318,443	311,304
Other Operating Expense	970,089	812,900
Non-operating Expense	<u>159,036</u>	<u>213,068</u>
Total Expenses	<u>1,447,568</u>	<u>1,337,272</u>
Changes in Net Assets	60,777	148,674
Beginning Net Assets	7,827,264	7,695,032
Prior Period Adjustment	<u>-</u>	<u>(16,442)</u>
Ending Net Assets	<u>\$ 7,888,041</u>	<u>\$ 7,827,264</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets shows how total revenues and expenditures increased the net assets. Operating revenues of \$934,684, less operating expenses of \$970,089 show that the day to day operations of the treatment plant were not being met by user fees. In the spring of 2004, a rate study using the Michigan Rural Water Association software was compiled and determined that rates charged to sewer users need to be increased. The new rates became effective with the new fiscal year on July 1, 2004. The Depreciation expense of \$318,443 is a non-cash expense, which represents the reduction in the value of the facility and system.

The rate charged to municipal users is computed by taking actual operating costs and adding an \$85,000 annual replacement reserve to get a total cost that is divided by the actual usage billed to each municipality. The Annual Replacement reserve is used to pay for capital improvements such as computer upgrades, plant improvements and equipment. Participating municipalities are also billed separately for the actual debt payment due during the fiscal year. This is again computed based on usage by the municipalities.

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

BUDGETARY HIGHLIGHTS

The Sewage Disposal System is an enterprise fund. The City of Ionia is not required to adopt an annual budget. However, the City Council does adopt an annual Operating Budget and a five-year Capital Plan following a public hearing. This budget is also presented to the Board of Public Works, after the Council's approval. The Operating Budget includes proposed expenses and the means of financing them. The SDS's operating budget remains in effect but can be revised with City Council approval prior to the June 30, year end.

The capital plan and annual capital expenditures are also included in the budget. The depreciation expense is recorded in the budget but is not covered by revenues. Therefore the budget is allowed to show a net loss for the year. A replacement reserve line item is budgeted to allow for capital improvements. This amount is added to the operating costs as explained in the previous section.

A 2003-2004 budget comparison and analysis is presented in TABLE 3.

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

TABLE 3
BUDGET vs. ACTUAL

	BUDGETED			Variance Favorable (Unfavorable)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
OPERATING REVENUES				
Sales and charges for services	\$ 898,085	\$ 918,044	\$ 918,042	\$(2)
Other	<u>11,367</u>	<u>16,643</u>	<u>16,642</u>	<u>(1)</u>
 TOTAL OPERATING REVENUES	 909,452	 934,687	 934,684	 (3)
OPERATING EXPENSES				
Salaries	240,379	247,731	247,727	4
Payroll Taxes and fringe benefits	145,857	149,913	149,907	6
Central garage allocation	103	25	22	3
Insurance	58,588	59,040	59,040	0
Contractual and professional	41,331	223,813	159,486	64,327
Operating supplies	182,360	162,576	150,818	11,758
Administration	85,720	84,979	84,979	0
Telephone	6,509	6,855	6,852	3
Transportation and training	1,200	1,105	1,104	1
Public Utilities	91,652	100,440	100,434	6
Depreciation	318,270	318,270	318,443	(173)
Gas and oil	1,941	3,577	3,574	3
Equipment rental	0	1,955	1,952	3
Miscellaneous	884	0	833	(833)
Repair & maintenance supplies	<u>1,395</u>	<u>3,366</u>	<u>3,361</u>	<u>5</u>
 TOTAL OPERATING EXPENSES	 <u>1,176,189</u>	 <u>1,363,645</u>	 <u>1,288,532</u>	 <u>75,113</u>
 OPERATING (LOSS)	 (266,737)	 (428,958)	 (353,848)	 75,110
NONOPERATING REVENUES (EXPENSES)				
Interest Revenue	31,473	41,605	40,511	(1,094)
Contributions from local units	523,613	564,076	533,150	(30,926)
Interest Expense	(606,621)	(536,846)	(89,261)	447,585
Contributions to local unit	<u>0</u>	<u>(522,398)</u>	<u>(69,775)</u>	<u>452,623</u>
TOTAL NONOPERATING REVENUE(EXPENSES)	<u>(51,535)</u>	<u>453,563</u>	<u>414,625</u>	<u>868,188</u>
 NET INCOME (LOSS)	 <u>\$(318,272)</u>	 <u>\$(882,521)</u>	 <u>\$ 60,777</u>	 <u>\$ 943,298</u>

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

The cost of the Treatment Plant is allocated to the participating municipalities. Since operating costs were more than last year the City and Townships were also billed more than last year. In addition, the billable flow was slightly less, so the rates charged to the municipalities actually went from \$1.33/1000 to \$1.40/1000. The Contractual Service and Operating Supplies variances from amended budget are a result of only spending money when absolutely necessary and having employees provide more services that originally were budgeted as contracted jobs. The non-operating revenues and expenses variances are due to budget processes which are set up to show Balance Sheet activity, such as Bond indebtedness, payment of principal on debt, purchases of capital items and improvements to the system that are tracked through the Capital Projects fund. For example, the interest expense variance of \$517,359 ties to the principal on the debt that was paid during the year. The budget shows both interest and principal. In order to reduce the balance of the long term debt the principal must be reclassified to the balance sheet.

CAPITAL ASSETS

At the end of 2003-2004, the SDS had invested \$48,101 in equipment for the wastewater treatment plant. A Radio Telemetry system for the lift station, a Skid Steere and a new computer for the office, were purchased. In addition, the SDS made improvements to the system. 20% of the projects that were funded by the April 28, 2004 bond can be attributed to improvement to the SDS. The amount added to the system during this fiscal year as construction in progress was \$149,776. The SDS has a five year Asset Management Plan that includes continued improvements for controls, radios, lift station, and exterior work on the plant. The goal of any asset management program is to maintain the assets in as close to “new” condition so as to eliminate the need for more costly repairs and/or replacement. By keeping the assets in “new”, “excellent,” or “good” condition (depending on the Asset Management terms being used), experience has shown that the ultimate costs are substantially reduced. A rule of thumb is that for every \$1 of capital maintenance, nearly \$4 in more costly repairs and replacements are saved. Projects that would need to be bonded for and will be evaluated further include air conditioning installation in the plant and additional storage at the facility. The decrease in structures, machinery & equipment, and furniture & fixtures is reflective of recognizing plant asset disposals for obsolete equipment or depreciation.

TABLE 4
CAPITAL ASSETS

	2003 - 2004	2002 - 2003
Sewer Plant and Improvements	\$ 15,339,012	\$ 15,189,236
Machinery and Equipment	<u>120,460</u>	<u>72,359</u>
Sub-total	15,459,472	15,261,595
Less: Accumulated Depreciation	<u>(5,112,779)</u>	<u>(4,794,336)</u>
Net Property and Equipment	<u>\$ 10,346,693</u>	<u>\$ 10,467,259</u>

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION

The SDS does not levy any millage to generate property tax revenue. The system charges each of the municipalities for the purpose of funding the debt service on bond issues from 1976 - 2002 based on billable flow within the participating municipalities. Revenue bond indebtedness outstanding at June 30, 2004 amounted to \$ 4,152,500. New debt was incurred on April 28, 2004, of which the SDS is responsible for 20% or \$840,000. Interest on these loans is payable semi-annually at rates of 2.00 - 5.00%. More detailed information about the SDS's long-term liabilities is presented in note F of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The amount charged to the participating municipalities is adjusted each fiscal year based on actual costs and billable flows. When the billable flow volume is higher the cost per thousand gallons of sewage can be lower. Conversely, when the actual expenses for the year are higher the cost per thousand gallons can be higher.

The city's biggest customer within the SDS is the State of Michigan. The State has committed to paying for 69.44% of the 1976 and 1990 bonds which allowed for improving the system to meet the demands of the prisons located in the SDS. This commitment has helped to keep the debt costs, which are passed on to the individual customers, at a minimum.

TABLE 5
RATES HISTORY

07/01/1999-06/30/2000	\$ 1.088 per 1,000 gallons
07/01/2000-06/30/2001	1.134 “
07/01/2001-06/30/2002	1.262 “
07/01/2002-06/30/2003	1.333 “
07/01/2003-06/30/2004	1.406 “

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the SDS's finances and to demonstrate the SDS's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Cathy Pearce, Finance Director/Treasurer, City Hall, P.O. Box 496, Ionia, MI 48846 or by phone at (616) 527-4170 ext. 120 or by email at cathy@city.ionia.mi.us.

BASIC FINANCIAL STATEMENTS

Ionia Area Sewage Disposal System

STATEMENTS OF NET ASSETS

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 530,209	\$ 576,955
Accounts receivable	3,883	6,738
Due from other governmental units - local	687,928	662,205
Inventory	<u>3,751</u>	<u>5,825</u>
Total current assets	1,225,771	1,251,723
Noncurrent assets		
Cash - restricted	163,915	183,786
Deposit with County	631,925	1,680
Capital assets, net of accumulated depreciation	<u>10,346,693</u>	<u>10,467,259</u>
Total noncurrent assets	<u>11,142,533</u>	<u>10,652,725</u>
TOTAL ASSETS	12,368,304	11,904,448
LIABILITIES		
Current liabilities		
Accounts payable	23,205	38,036
Accrued liabilities	5,605	11,421
Due to other governmental units - local	61,679	-
Deferred revenue	163,915	183,786
Current portion of accrued sick and vacation pay	18,340	16,548
Current portion of long-term debt	<u>475,000</u>	<u>460,053</u>
Total current liabilities	747,744	709,844
Noncurrent liabilities		
Accrued sick and vacation pay	55,019	49,643
General obligation bonds payable, net of current portion	<u>3,677,500</u>	<u>3,317,697</u>
Total noncurrent liabilities	<u>3,732,519</u>	<u>3,367,340</u>
TOTAL LIABILITIES	<u>4,480,263</u>	<u>4,077,184</u>
NET ASSETS		
Invested in capital, net of related debt	6,194,193	6,689,509
Unrestricted	<u>1,693,848</u>	<u>1,137,755</u>
TOTAL NET ASSETS	<u>\$ 7,888,041</u>	<u>\$ 7,827,264</u>

See accompanying notes to basic financial statements.

Ionia Area Sewage Disposal System

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Sales and charges for services	\$ 918,042	\$ 894,813
Other	<u>16,642</u>	<u>19,449</u>
TOTAL OPERATING REVENUES	934,684	914,262
OPERATING EXPENSES		
Administrative	460,169	314,620
Treatment plant	497,406	482,486
Lift station	12,514	15,794
Depreciation expense	<u>318,443</u>	<u>311,304</u>
TOTAL OPERATING EXPENSES	<u>1,288,532</u>	<u>1,124,204</u>
OPERATING LOSS	(353,848)	(209,942)
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	40,511	38,132
Contributions from local units	533,150	533,552
Interest expense	(89,261)	(102,058)
Contributions to local unit	<u>(69,775)</u>	<u>(111,010)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>414,625</u>	<u>358,616</u>
CHANGE IN NET ASSETS	60,777	148,674
Restated net assets, beginning of year	7,827,264	7,695,032
Prior period adjustment	<u>-</u>	<u>(16,442)</u>
Net assets, end of year	<u>\$ 7,888,041</u>	<u>\$ 7,827,264</u>

See accompanying notes to basic financial statements.

Ionia Area Sewage Disposal System

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 891,945	\$ 1,137,404
Cash paid to suppliers	(523,534)	(454,332)
Cash paid to employees	(245,960)	(252,328)
Cash paid for employee benefits	(150,321)	(113,417)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(27,870)	317,327
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions from local units	533,150	533,552
Contributions to local unit	(69,775)	(111,010)
NET CASH PROVIDED BY NONCAPITAL FINANCIAL ACTIVITIES	463,375	422,542
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond proceeds received	209,755	18,358
Capital purchases	(197,877)	(31,147)
Payment of borrowing	(465,250)	(450,250)
Interest expense	(89,261)	(102,058)
NET CASH USED BY FINANCING ACTIVITIES	(542,633)	(565,097)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	<u>40,511</u>	<u>38,132</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	(66,617)	212,904
Cash and cash equivalents, beginning of year	<u>760,741</u>	<u>547,837</u>
Cash and cash equivalents, end of year	<u>\$ 694,124</u>	<u>\$ 760,741</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$(353,848)	\$(209,942)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	318,443	311,304
(Increase) decrease in accounts receivable	2,855	(5,078)
(Increase) decrease in due from other governmental units	(25,723)	44,434
(Increase) decrease in inventory	2,074	(1,575)
(Decrease) in accounts payable	(14,831)	(4,492)
(Decrease) in accrued liabilities	(5,816)	(2,475)
Increase (decrease) in due to other governmental units	61,679	-
Increase (decrease) in deferred revenue	(19,871)	183,786
Increase in accrued sick and vacation pay	<u>7,168</u>	<u>1,365</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$(27,870)</u>	<u>\$ 317,327</u>

See accompanying notes to basic financial statements.

Ionia Area Sewage Disposal System

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ionia Area Sewage Disposal System (System) was created by contractual agreement between the City of Ionia and Ionia, Berlin, Easton, and Orange Townships. The purpose of the System is to construct, improve, enlarge, operate, and maintain all sanitary sewers, storm sewers, combined sanitary and storm sewers, plants, and works used in connection with the collection treatment or disposal of sewage for the benefit of the constituent municipalities.

The allocation of costs of the SDS to the constituent municipalities is based on usage of the system as measured by billable flow. During 1996, the City of Ionia began to directly bill Ionia Township SDS customers. As a result, the City's allocation of costs includes the portion of costs that had been charged to Ionia Township in the past. On December 1, 2001, the City began to directly bill Easton Township SDS customers for operating costs and fixed asset reserves. As a result, the City's allocation of costs includes a portion of costs that would have been charged to Easton Township in the past. The Township continues to make contributions to SDS to fund their portion of the debt service requirements.

Funding of operating costs and the fixed asset reserve as based on annual participant usage is currently as follows:

City of Ionia	86.96%
Ionia Township	7.32%
Berlin Township	5.72%

Funding of debt service as based on annual participant usage is currently as follows:

City of Ionia	83.43%
Ionia Township	7.32%
Berlin Township	5.72%
Easton Township	3.53%

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Ionia Area Sewage Disposal System. The System is considered a "joint venture" of the constituent municipalities.

2. Basis of Presentation

The operations of the System are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The System's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The SDS applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The SDS has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., total net assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

5. Budgets and Budgetary Accounting

The City of Ionia operates, administers, and maintains the SDS on behalf of the City and Townships. The annual budget of the SDS is prepared by the City and adopted by City Council. The proposed budget and allocation of costs are submitted to the City and Townships at least sixty (60) days prior to the beginning of each fiscal year. The Townships have thirty (30) days to advise the City of any objections to the proposed budget and allocation. Objections that cannot be resolved are brought before a review board consisting of one (1) appointed member from each constituent municipality and the City Board of Public Works. All actions of the review board are made by a majority vote.

6. Cash and Cash Equivalents

Cash equivalents consist of the System's portion of the City of Ionia's pooled cash accounts. These pooled accounts consist of various checking, savings, certificates of deposit and investment trust funds.

7. Due From Other Governmental Units

Due from other governmental units consists of amounts due from constituent municipalities for debt service and operating costs and amounts due from a component unit of the City of Ionia.

8. Inventories

Inventories in the Enterprise Fund consist of operating materials and supplies, which are stated at cost on a first-in/first-out basis.

9. Capital Assets and Long-Term Liabilities

Capital assets, which include facilities and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$500 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Sewer plant and improvements	50 years
Machinery and equipment	3 years

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

9. Capital Assets and Long-Term Liabilities - continued

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

10. Accrued Vacation and Sick Leave

The System's employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a long-term liability in the Proprietary Fund.

11. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the financial position, operations, and cash flows. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the System is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government, and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

A portion of the cash and cash equivalents of the System are covered by Federal deposit insurance along with other deposits of the City of Ionia, limited to \$100,000 in total deposits for each bank customer. Since the City maintains these funds in pooled accounts it is not practical to determine what portion of the System's funds are insured.,

Deposits with County

As of June 30, 2004, the City had funds on deposit with Ionia County of \$631,925 for construction projects and payment of debt service. This amount is considered to be uninsured and uncollateralized.

NOTE C: CASH - RESTRICTED

The restricted cash as of June 30, 2004, of \$163,915 is to be used for future debt payments by the System.

NOTE D: DUE FROM OTHER GOVERNMENTAL UNITS - LOCAL

A summary of amounts due from other governmental units - local at June 30, 2004 follows:

Due from the City of Ionia	\$ 674,131
Due from Berlin Township	<u>13,797</u>
	<u>\$ 687,928</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Business-type activities:				
Sewer plant and improvements	\$15,189,236	\$ -	\$ -	\$15,189,236
Machinery and equipment	72,359	48,101	-	120,460
Construction in progress	<u>-</u>	<u>149,776</u>	<u>-</u>	<u>149,776</u>
Totals at historical cost	15,261,595	197,877	-0-	15,459,472

Ionia Area Sewage Disposal System

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE E: CAPITAL ASSETS - CONTINUED

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Business-type activities - continued:				
Less accumulated depreciation for:				
Sewer plant and improvements	\$ 4,752,537	\$ 303,770	\$ -	\$ 5,056,307
Machinery and equipment	<u>41,799</u>	<u>14,673</u>	<u>-</u>	<u>56,472</u>
Total accumulated depreciation	<u>4,794,336</u>	<u>318,443</u>	<u>-0-</u>	<u>5,112,779</u>
Capital assets, net	<u>\$10,467,259</u>	<u>\$ (120,566)</u>	<u>\$ -0-</u>	<u>\$10,346,693</u>

Depreciation expense in the amount of \$318,443 was reported for the year ended June 30, 2004.

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the System for the year ended June 30, 2004:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>	<u>Amounts Due Within One Year</u>
1976 General Obligation Bonds	\$ 290,000	\$ -	\$ 95,000	\$ 195,000	\$ 95,000
1990 General Obligation Bonds	3,115,000	-	365,000	2,750,000	370,000
2003 General Obligation Bonds	372,750	-	5,250	367,500	10,500
2004 General Obligation Bonds	<u>-</u>	<u>840,000</u>	<u>-</u>	<u>840,000</u>	<u>-</u>
	<u>\$ 3,777,750</u>	<u>\$ 840,000</u>	<u>\$ 465,250</u>	<u>\$ 4,152,500</u>	<u>\$ 475,500</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

\$1,600,000 1976 Limited Tax General Obligation Bonds dated July 15, 1976, due in annual installments ranging from \$95,000 to \$100,000 through April 1, 2006, with interest at 5.00 percent, payable semi-annually. \$ 195,000

\$6,382,251 1990 Limited Tax General Obligation Bonds dated August 1, 1990, due in annual installments ranging from \$370,000 to \$415,000 through October 1, 2010, with interest at 2.00 percent, payable semi-annually. 2,750,000

\$3,600,000 2003 Limited Tax General Obligation Bonds dated August 1, 2003, due in annual installments ranging from \$100,000 to \$300,000 through October 1, 2020, with interest ranging from 4.00 percent to 5.00 percent, payable semi-annually. The Bonds were issued with the full faith and credit of the City of Ionia. The City is responsible for paying 89.5 percent of the debt, and the system is responsible for paying 10.5 percent of the debt. 367,500

\$4,200,000 2004 Limited Tax General Obligation Bonds dated April 28, 2004, due in annual installments ranging from \$0 to \$300,000 through August 1, 2029, with interest ranging from 3.00 percent to 4.60 percent, payable semi-annually. The City is responsible for paying 80 percent of the debt and the system is responsible for paying 20 percent of the debt. 840,000

\$ 4,152,500

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 475,500	\$ 91,836
2006	485,500	102,961
2007	395,500	87,546
2008	425,750	79,220
2009	430,750	70,190
2010-2014	1,015,000	245,900
2015-2019	281,500	179,667
2020-2024	283,000	115,642
2025-2029	300,000	55,020
2030	<u>60,000</u>	<u>2,760</u>
	<u>\$ 4,152,500</u>	<u>\$ 1,030,742</u>

NOTE G: SEGMENT INFORMATION

Segment information for the year ended June 30, 2004, is as follows:

Operating revenues	\$ 934,684
Operating expenses	
Depreciation	318,443
Other	970,089
Operating loss	(353,848)
Changes in net assets	(88,999)
Net increase in property and equipment	48,101
Net working capital	406,367
Total assets	12,218,528
Long-term liabilities	
Revenue bonds payable	4,152,500
Accrued sick and vacation pay	73,359
Total net assets	7,738,265

NOTE H: RISK MANAGEMENT

The System is incorporated into the City of Ionia's insurance coverage and as a result is protected from losses. The City carries commercial insurance for the risk of loss due to Workers' Compensation claims.

The City also participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

OTHER SUPPLEMENTARY INFORMATION

Ionia Area Sewage Disposal System

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - AMENDED BUDGET AND ACTUAL

Year Ended June 30, 2004
With Actual Amounts for the Year Ended June 30, 2003

	<u>Amended Budget</u>	<u>2004 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2003 Actual</u>
OPERATING REVENUES				
Sales and charges for services				
City of Ionia	\$ 888,358	\$ 888,357	\$(1)	\$ 867,329
Berlin Township	29,686	29,685	(1)	27,484
Other	<u>16,643</u>	<u>16,642</u>	<u>(1)</u>	<u>19,449</u>
TOTAL OPERATING REVENUES	934,687	934,684	(3)	914,262
OPERATING EXPENSES				
Administrative				
Salaries	46,565	46,561	4	55,629
Payroll taxes and fringe benefits	39,240	39,238	2	20,768
Insurance	59,040	59,040	-0-	56,882
Contractual and professional	17,713	8,929	8,784	3,749
Administration	84,979	84,979	-0-	83,115
Telephone	6,174	6,173	1	5,392
Transportation and training	1,105	1,104	1	1,618
Public utilities	96,325	96,321	4	87,375
Depreciation	318,270	318,443	(173)	311,304
Bond issuance costs	137,100	116,990	20,110	-
Miscellaneous	<u>-</u>	<u>834</u>	<u>(834)</u>	<u>92</u>
Total administrative	806,511	778,612	27,899	625,924
Treatment plant				
Salaries	196,816	200,759	(3,943)	190,182
Payroll taxes and fringe benefits	108,668	108,666	2	90,606
Central garage allocation	25	22	3	-
Contractual and professional	69,000	33,567	35,433	41,555
Operating supplies	99,005	87,248	11,757	101,264
Gas and oil	3,577	3,574	3	2,566
Chemicals	63,571	63,570	1	55,521
Miscellaneous	<u>-</u>	<u>-</u>	<u>-0-</u>	<u>792</u>
Total treatment plant	540,662	497,406	43,256	482,486
Lift station				
Salaries	4,350	406	3,944	5,407
Payroll taxes and fringe benefits	2,005	2,003	2	2,043
Contractual and professional	-	-	-0-	100
Repair and maintenance supplies	3,366	3,362	4	1,044
Telephone	681	678	3	956
Public utilities	4,115	4,113	2	4,292
Equipment rental	<u>1,955</u>	<u>1,952</u>	<u>3</u>	<u>1,952</u>
Total lift station	<u>16,472</u>	<u>12,514</u>	<u>3,958</u>	<u>15,794</u>
TOTAL OPERATING EXPENSES	<u>1,363,645</u>	<u>1,288,532</u>	<u>75,113</u>	<u>1,124,204</u>
OPERATING LOSS	(428,958)	(353,848)	75,110	(209,942)

Ionia Area Sewage Disposal System

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - AMENDED BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2004
With Actual Amounts for the Year Ended June 30, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	\$ 41,605	\$ 40,511	\$(1,094)	\$ 38,132
Contributions from local units	564,076	533,150	(30,926)	533,552
Interest expense	(536,846)	(89,261)	447,585	(102,058)
Contributions to local unit	(522,398)	(69,775)	452,623	(111,010)
TOTAL NONOPERATING REVENUES (EXPENSES)	(453,563)	414,625	868,188	358,616
CHANGE IN NET ASSETS	(882,521)	60,777	943,298	148,674
Restated net assets, beginning of year	7,827,264	7,827,264	-0-	7,695,032
Prior period adjustment	-	-	-0-	(16,442)
Net assets, end of year	<u>\$ 6,944,743</u>	<u>\$ 7,888,041</u>	<u>\$ 943,298</u>	<u>\$ 7,827,264</u>

Note: Budget data is presented for informational purposes only.